Global Trade Helps More Than It Hurts

By: Andrew Brod

Brod, Andrew (2003). Global Trade Helps More Than It Hurts. *Greensboro News & Record*, August 31, 2003

Article:

Times are tough in the textile and furniture industries. Foreign imports, most notably from China, are dominating segments in both industries. It seems that every time one opens the newspaper, another factory is being closed and its jobs moved overseas.

Both industries are working hard to cope with the brave new world of global competition. Some companies are going with the flow, by contracting with foreign producers or investing in foreign factories. It doesn't help the employment picture here as much as some would like, but so far it's helping those companies survive.

Other companies are fighting back and taking the foreign competition head-on. They're trying to improve their processes, serve customers better, and focus on high quality instead of low price. The companies that succeed in this will emerge as strong and efficient global competitors themselves.

And there's a third approach: Appealing to the U.S. government to raise trade barriers against foreign-made products. Such appeals make sense to many people who are scared to death by competition from low-wage countries they don't understand. But trade protectionism is bad for the American economy in the long run, and bad for a majority of Americans even in the short run.

The textile and furniture industries are traveling nearly parallel paths in their efforts to restrict trade, but the textile industry is a bit further along. It has successfully petitioned the federal government to consider imposing limits on imports of Chinese products in three specific categories: knit fabric, brassieres, and dressing gowns.

The basis of the appeal is the "China textile and apparel safeguard," a provision of the agreement that allowed China to join the World Trade Organization in late 2001. Any WTO member that believes Chinese textile imports are "threatening to impede the orderly development of trade" may act to limit those imports. The U.S. government has agreed to hear public comment on the petition, after which it will make its decision, possibly late this year.

For a claim to be valid under the China safeguard, the threat of imports must be due to "market disruption," which would seem to indicate fast-changing economic conditions. But the threat of low-wage foreign competition has been a reality in the textile and apparel industry for many years now. Can a process that's been going on for so long be thought of as a disruption, let alone a disorderly development of trade?

The furniture industry has yet to make its appeal for trade protection. But by October the industry intends to file an anti-dumping petition that focuses on wood bedroom furniture made in China.

Dumping is defined to occur when foreign-made products are sold here for less than in the producing country. The conventional wisdom is that foreign producers are willing to sell their products here below cost in hopes of driving out domestic producers. Once they succeed, the foreign producers are believed to be free to raise prices to exorbitant heights.

There are many problems with this folk theory. One big problem is that there's scant evidence that the above horror story has ever happened. If it were a reality, we'd have seen prices rise as our trade exposure increased. However, precisely the opposite has happened. International trade hasn't raised American consumer prices, it's lowered them. Trade has been a significant factor in keeping inflation in check for so long.

A second problem is that supporters of the anti-dumping petition seem to want to have it both ways. They tell us that it's hard to compete with China due to its low labor costs, but then they tell us that Chinese companies are selling furniture in America *below* cost. Well, which is it? Low prices due to cheap labor, or low prices due to dumping?

Third, what some see as dumping is actually just an example of a very common pricing practice. It's called "price discrimination," and it's not necessarily a bad thing. If two markets can be separated from each other, geographically or otherwise, there will generally be lower prices for the same product in the market in which there is more competition.

Airlines charge lower fares to vacation travelers than to business travelers, because vacation travelers have more options and that means airlines have to compete harder for their business. For similar reasons, electric utilities charge lower rates to residential users than to business users. And when foreign producers export to countries in which product competition is tougher than at home (which is often the case in developing economies like China's), they often charge lower prices abroad.

Do vacation travelers and residential electricity users mind having their purchases partly subsidized by businesses? Of course not. But for some reason, we're told that we *should* mind if the product is furniture and the subsidy is coming from overseas.

In any case, it's hard to know who "they" and "we" are. China's total exports have tripled since 1994, and according to the investment bank Morgan Stanley, fully 65 percent of that dramatic growth is due to subsidiaries of, and joint ventures with, multinational firms. Many American furniture makers fall into this category, including a number of the anti-dumping petitioners. Don't you just love irony?

Trade protectionists in both industries claim that they support free trade and are merely fighting "unfair trade" and ensuring a "level playing field." These are great sound bites, but it's very hard to determine who is and isn't playing fair in the trade game. And sometimes the cheaters aren't whom you'd expect.

It may be that China subsidizes the production of both textiles and furniture, as the trade protectionists claim. But the U.S. is hardly an innocent flower in this respect. For example, we subsidize our farmers quite aggressively. Along with France, we practically lead the world in this dubious category. We may not be allies in the war in Iraq, but the Franco-American alliance in farm subsidies has held firm, harming developing countries around the world by flooding them with artificially low-priced agricultural goods. If China is a kettle, then we're a pot.

Another of the "unfair trade" claims is that China is a non-market economy. One textile-industry leader even referred to it as a communist country. Such characterizations are years out of date. China has been moving rapidly toward a market economy since Deng Xiaoping started instituting economic reforms in the 1980s. To be sure, the government has retained its authoritarian grip on society, so it's certainly not a democracy. But neither is it a communist country. Some markets in China are more hurly-burly and competitive than in the U.S.

One measure of a market economy is the central government's share of national income. The bigger the share, the less room there is for markets to allocate goods and services freely. In socialist industrial economies like Sweden and Israel, the national government can account for well over a third of the economy (local governments add to that). The average share among developing countries is lower, and in China it's lower still, around 1 1 percent. In the U.S., it's about 20 percent. The upshot is that it's more accurate to describe China as a developing economy than as a non-market economy.

Yet another claim is that China manipulates its currency, the yuan, to promote exports unfairly. It's true that the yuan's value is fixed by the Chinese government, and most analysts agree that it's significantly undervalued.

China manages this by buying huge quantities of dollars and dollar-dominated securities, thereby bidding up the value of the dollar relative to the yuan. However, those purchases also help finance the massive budget deficits the Bush administration is racking up. Without China's cheap-yuan policy, the budget situation in Washington could be much gloomier than it already is. Is that really what we want?

The efforts by the textile and furniture industries to restrict trade are understandable, but wrong-headed. They threaten to undermine the traditional leadership of the United States in promoting free trade around the world, and to harm American consumers in the name of protecting a relatively small segment of the economy.

It's hard to see through the plant closings, but on balance, international trade is a boon to the American economy. According to the Office of the U.S. Trade Representative, the North American Free Trade Agreement (NAFTA) and the creation of the WTO have raised the annual income of the average family of four by about $1,650. Multiplied across the entire population, this represents a net benefit of over $100 billion per year. And this is the opinion of a Bush appointee regarding Clinton-era trade policies.

However, abandoning calls for protectionism doesn't imply abandoning industries and regions that are harmed by international trade. Free trade doesn't mean government is free of responsibility for what happens in a market economy. Trade benefits society as a whole, but it also changes some lives and hurts some people, and in this case they're our friends and neighbors. The government needs to do what it can to retrain and compensate them, and help us all prepare for the future.

Here's the biggest problem with the current push to restrict trade: It won't work. The global economy is a complicated machine, and closing off one valve just causes another to blow. We might as well try to outlaw gravity. As an executive of a Chinese furniture company put it, "The furniture industry will just go to other countries, like Vietnam, Indonesia, or Malaysia. This is the trend of the global marketplace."